CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 21, 2007

H.R. 3688
United States-Peru Trade Promotion Agreement Implementation Act

As cleared by the Congress on December 4, 2007,
and signed by the President on December 14, 2007

SUMMARY

H.R. 3688 (enacted as Public Law 110-138) approves the free trade agreement between the government of the United States and the government of Peru that was entered into on April 12, 2006. It provides for tariff reductions and other changes in law related to implementation of the agreement. It also shifts some corporate income tax payments between fiscal years.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that enacting the legislation will increase revenues by $292 million over the 2008-2012 period, and reduce revenues by $423 million over the 2008-2017 period. CBO estimates that enacting H.R. 3688 also will increase direct spending by $27 million over the 2008-2012 period and reduce direct spending by $443 million over the 2008-2017 period. Thus, the net impact of the legislation is an estimated reduction in deficits (or increase in surpluses) of $20 million over the 10-year period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the legislation over the 2008-2017 period is shown in the following table. The cost of this legislation falls within budget function 750 (administration of justice).

	By Fiscal Year, in Millions of Dollars											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
CHANGES IN REVENUES												
Free Trade Agreement	-20	-35	-37	-39	-41	-44	-47	-50	-53	-56	-173	-423
Payment of Corporate Estimated Tax	0	0	0	0	465	-465	0	0	0	0	465	0
Total Changes in Revenues	-20	-35	-37	-39	424	-509	-47	-50	-53	-56	292	-423
CHANGES IN DIRECT SPENDING												
Customs User Fees												
Estimated Budget Authority	4	5	6	6	6	7	7	-484	0	0	27	-443
Estimated Outlays	4	5	6	6	6	7	7	-484	0	0	27	-443

Sources: Congressional Budget Office and Joint Committee on Taxation.

BASIS OF ESTIMATE

Revenues

Under the United States-Peru agreement, tariffs on U.S. imports from Peru will be phased out over time. The tariffs will be phased out for individual products at varying rates according to one of several different timetables ranging from immediate elimination on the date the agreement enters into force to gradual elimination over 10 years.

According to the U.S. International Trade Commission, the United States collected about $5 million in customs duties in 2006 on $6 billion of imports from Peru. However, since 1991, imports to the United States from Peru have been subject to reduced tariff rates in accordance with the Andean Trade Preference Act (ATPA), which was expanded in legislation enacted in 2002. Legislation enacted in June 2007 (Public Law 110-42) extended the ATPA through February 29, 2008. The ATPA overlaps to a large extent with the free trade agreement that will be implemented by this legislation. As a result, H.R. 3688 will effectively extend the ATPA for Peru after February 29, 2008, while also lowering tariff rates not covered by the ATPA. Based on expected imports from Peru, CBO estimates that implementing the tariff schedule outlined in the U.S.-Peru agreement will reduce revenues by an average of $42 million per year from 2008-2017, net of income and payroll tax offsets.

This estimate includes the effects of increased imports from Peru that will result from the reduced prices of imported products in the United States, reflecting the lower tariff rates. It is likely that some of the increase in U.S. imports from Peru will displace imports from other countries. In the absence of specific data on the extent of this substitution effect, CBO assumes that an amount equal to one-half of the increase in U.S. imports from Peru will displace imports from other countries.

H.R. 3688 will also shift payments of corporate estimated taxes between 2012 and 2013. For corporations with at least $1 billion in assets, the act will increase the portion of corporate estimated payments due from July through September of 2012. JCT estimates that this change will increase revenues by $465 billion in 2012 and decrease revenues by $465 billion in 2013.

Direct Spending

Prior to enactment of H.R. 3688, customs user fees were scheduled to expire either after October 7, 2014 (for COBRA fees) or after October 21, 2014 (for merchandise processing fees). Such fees are recorded in the budget as offsetting receipts (a credit against direct spending). H.R. 3688 extends both COBRA fees and merchandise processing fees through December 13, 2014. CBO estimates that this provision will increase offsetting receipts by $485 million in fiscal year 2015.

In addition, H.R. 3688 will exempt certain goods imported from Peru from merchandise processing fees. Based on the value of goods imported from Peru in 2007, CBO estimates that implementing this provision will reduce fee collections by about $4 million in fiscal year 2008 and by about $42 million over the 2008-2015 period. There will be no effects after December 13, 2014, because fees expire after that date.

PREVIOUS CBO ESTIMATE

On October 24, 2007, CBO transmitted a cost estimate of S. 2113, an identically titled bill that was ordered reported by the Senate Committee on Finance on October 4, 2007. On November 2, 2007, CBO transmitted a cost estimate for H.R. 3688 as ordered reported by the House Committee on Ways and Means on October 31, 2007. The three versions of the legislation are identical, as are all of CBO's estimates.

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